

*J. W. Serbert*

# **RATE FILING INFORMATION**

**PRESENTED AUGUST 26, 1976,  
TO STATE INSURANCE DEPARTMENT  
AT TALLAHASSEE**

**By  
Blue Cross of Florida, Inc.  
and  
Blue Shield of Florida, Inc.**

# Who Are We?

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*How all of us  
can help each  
of us contain  
health care  
costs*



**Blue Cross**  
of Florida



**Blue Shield**  
of Florida

The Blue Cross and Blue Shield Plans in Florida are unique. There is nothing comparable to them, so it becomes difficult to understand fully what makes them different. Their purpose is to help Floridians pre-pay their health care bills.

The Plans are separate corporations with separate boards of directors. One president and his staff serve both corporations which eliminates duplicate effort and cost.

Both Plans in Florida came into existence through special enabling acts passed by the state legislature. These enabling acts still play an important part in the operations of both Plans.

Both the Blue Cross Plan and the Blue Shield Plan are incorporated as nonprofit corporations as required by the enabling acts. This nonprofit status means exactly what it says. No one profits from the operations of the Blue Cross and Blue Shield Plans. For example, there are no dividends to pay to stockholders, and the boards of directors of both Plans receive no salary for their time and effort.

This nonprofit status enables the Plans to return approximately 93¢ of each dollar paid to them, back to their subscribers if they are ill or injured. Both corporations are run entirely on the remaining 7¢ from each dollar. That amount is used to pay salaries, to run the business, to pay claims, to do the bookkeeping, to make sure that subscribers are getting their money's worth, and to set up a reserve to pay claims during peak periods of illness or injury.



The enabling act also requires the Plans to submit contracts and rate changes to the State of Florida Insurance Department for approval before they can become effective. The Insurance Department has the option of calling for public hearings on the proposed changes.

Unlike other health insurers, who do not need prior governmental approval, the Plans must go through this process each time they request a rate increase.

The rates subscribers pay for Blue Cross and Blue Shield health care protection are determined mostly by the amount of benefits the subscriber needs for accidents or illnesses.

But, there are other things that impact rates. Since the Plans pay for services their subscribers receive from hospitals and doctors, the rates charged by the Plans reflect the costs of these services as well as how much the subscribers use the services of the hospital and doctors.

This brings us to one final unique difference of the Blue Cross and Blue Shield Plans: They are working with both hospitals and doctors to find ways to keep costs down.

But, if we are going to be able to continue to pay back 93¢ out of each dollar we take in for benefits, we'll need a lot of help from hospitals, doctors and **you**.



*All of us  
helping  
each of us.*



**Blue Cross**  
of Florida



**Blue Shield**  
of Florida

P. O. Box 1798  
532 Riverside Avenue  
Jacksonville, Florida 32231  
(904) 791-6111

# The Cost of Health Care Today

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*How all of us  
can help each  
of us contain  
health care  
costs*



**Blue Cross**  
of Florida



**Blue Shield**  
of Florida

The increase in health care costs is a significant national problem. In the last year, there's been an overall increase of 10% in hospital and doctor care costs.

In Florida, the average cost per hospitalization was \$768.30 in 1974. By the middle of 1976, it was up to \$1,029.07, a 34% increase.

The average cost per day in a Florida hospital has gone up too. In 1974, it was \$127.65 a day—At the end of June, this year, that cost had gone up nearly \$50 to \$173.83.

Physician charges have risen. Florida costs for procedures like a tonsillectomy are up 10.6% since last year. Office visit charges are up 11.9%, and costs for maternity have jumped a startling 16.5% in a year's time.

There are a number of reasons for these increased costs. It's a complex problem with no simple solutions.

*Inflation*, naturally has been a major contributor. It shows up in the supplies needed to run a hospital or doctor's office. Medical drugs and surgical supplies are at least 12½% higher than last year.

And, operating costs, like water and electricity are up too. We're all aware of these. But think for a moment how a hospital is impacted by utility increases. They run 24 hours a day, 7 days a week, 365 days a year.

It impacts in the increased salaries for hospital staffs and for doctor's office assistants. When you're sick, naturally, you want the best care available so you can get well. For hospitals and doctors to have the best people, the salaries they offer must be competitive with business and industry. We don't think you'll argue this.



Medical innovations have added to the rise in costs. Complex diagnostic and therapeutic techniques which require expensive equipment are costly. The body scanner for example, costs over \$350,000, but provides the capability of X-raying any part of your body in any way desired.

Ironically, the more sophisticated equipment a hospital buys, the greater the need for technicians and highly trained employees. Continuing education is costly, but vital if you are to receive the best and most up to date services when you need them.

Research on physician charges indicated a similarity—increased use of lab tests, X-rays, etc. in the office, and new surgical procedures like open heart surgery and organ transplants are complicated and expensive.

One other significant factor in rising costs is the dramatic increase in malpractice premiums for both hospitals and doctors. As the hospitals' liability insurance expired, they found their new insurance premiums for the same coverage increased 400, even 500%.

Some Florida physicians saw malpractice insurance premiums jump from \$4,000 to as much as \$14,000 annually. Specialists in high risk practices, like brain surgery experienced even greater increases.

Defensive medicine is an outgrowth of malpractice premium hikes. The use of all diagnostic examinations has risen greatly, because a doctor wants to be certain there's a record that his patient has received every possible test, should he become involved in a court case. The developing factor of defensive medicine is having a tremendous effect on the price tag of health care.

We all can realize that when expenses increase as dramatically as these, the patient and his insurer will experience cost increases too. Non-profit organizations, like Blue Cross and Blue Shield of Florida have little other choice than to pass these higher costs on, in terms of higher rates to subscribers.

Use of health care services is also having a big impact on the cost of health care today. More and more people are receiving health care services more frequently than ever before in our nation's history.

Why is this utilization increasing? One good reason is that many Americans live unhealthy lifestyles. Though many regard themselves as healthy, they smoke, drink and don't exercise. And, stress is playing an increasingly important part in many cases of heart attack.

On the other hand consumers have become more health oriented. The emphasis on early detection and preventive medicine is causing more people to seek treatment earlier.

Another reason is the life saving advances in medical technology that are now available. Although they are much more expensive, they enable the average patient to get well and go home faster.

In many cases, these advances can be the difference between life and death.

Health authorities estimate that 1½ million people are alive today who would have died earlier without the benefits of the great advances in medical science.

Today's patient pays more for his hospital and medical care, but he gets far more value for his dollar. During the past 25 years, we have advanced more in our knowledge and treatment of disease than in the preceding 25 centuries. Life saving advances in medical science are often expensive—but when you consider the alternative—they're worth every cent!

# What We Are Doing About The Cost of Health Care

**3** *How all of us  
can help each  
of us contain  
health care  
costs*



**Blue Cross**  
of Florida



**Blue Shield**  
of Florida



Our efforts to contain the costs of health care are actually twofold. One of our first concerns is the area of costs we have direct control over—benefit administration and administrative costs.

The other area is the wider spectrum of provider cost containment—things hospitals and doctors can do to hold their costs down.

The Blue Cross and Blue Shield Plans in Florida are active in both areas.

In the area of benefit administration, the Plans have developed several programs which help hold down the unnecessary payment of benefits.

One of these programs is called Pre-admission Testing. Under this program, many surgical patients scheduled for a hospital stay can have lab and X-ray tests done as outpatients. Instead of spending \$130 a day in the hospital waiting for test results, the patient can return home or even go back to work, until the tests are in.

Another program makes it possible for many kinds of surgery to be performed on an outpatient basis. By getting it done on an “in by nine out by five” basis, it’s easier on the patients. And on the pocketbook, too.

Other benefit administration programs include such things as Coordination of Benefits which prevents the claim from being paid twice by two group policies. And Subrogation which minimized the double payment of hospital and medical allowances paid by automobile firms to accident victims.

Another is hospital audits. The Plans have always audited charges from each contracting hospital on an annual basis. This program finds errors in hospital bills and returns the money to the Plans. Currently we are attempting to develop a Uniform Reporting System of Hospital Costs, so we will have a more effective means to evaluate hospital charges.

To help cut administrative operating costs, the Plans have instituted an extensive program which involves all employees finding ways of cutting day to day operating costs. It's called \$AVE. And it's paying off. For example, in one 11 month period, \$178,817 was saved on the electrical costs to the Plans. This was accomplished through the involvement and help of all employees in reducing energy consumption.

In the wider area of provider cost containment, the Plans have also been very active.

While we have no direct control over this area of costs, our relationship with hospitals and doctors allows us to work very closely with them. And there is hope because hospitals and doctors are very much aware of these escalating costs. Together we are looking for ways to control them.

For example, a recent program developed by the Plans and hospitals is called the Prospective Payment Program. This incentive program for hospitals sets "reasonable charges" at the beginning of a hospital's fiscal year. If the hospital exceeds the "reasonable charges" during the year, the hospital must absorb these costs except for highly unusual circumstances.

If the hospital can find ways to cut their operating costs during the year, they will keep the difference.

It is hoped this program will have a stabilizing effect on the charges hospitals make to the Plans for services they provide Plan subscribers. If it works, this will stabilize the rates the Plans must charge subscribers.

Another new program concerns Hospital Utilization Review Committees. These committees of doctors determine the medical necessity of treatment and length of stays of patients in a hospital. In the future, Blue Cross contracting hospitals will be required to have a functioning Utilization Review Committee. This will help assure the Plans their subscribers are getting proper care, but not any more than they need.

And there are many other things the Plans are working on with hospitals and doctors to help stabilize the cost of health care.

The results of these efforts may not be seen in the form of stabilized rates for our subscribers for a while. The important point is that we are working on it.

But the Blue Cross and Blue Shield Plans can't do it alone. It will take all of us—the Plans, hospitals, doctors and you—to really make it happen.

*All of us  
helping  
each of us.*



**Blue Cross**  
of Florida



**Blue Shield**  
of Florida



# What You Can Do About The Cost of Health Care

4

*How all of us  
can help each  
of us contain  
health care  
costs*



**Blue Cross**  
of Florida



**Blue Shield**  
of Florida

Blue Cross and Blue Shield of Florida can initiate programs, and try to hold down charges for health care services, but that's only half the problem of increasing health care costs.

Utilization is the other half. When we speak of utilization, we're referring to the number of people who go to the hospital or doctor, and how often they go.

The closer you watch every health care dollar, the less increase you may have in the rates you pay for health care coverage. Learn about, ask for and use, the kind of cost cutting programs we offer.

Because only if doctors and hospitals realize that you are as vitally concerned as we are, will these programs be offered and used on a widespread basis.

Use your hospital and doctor benefits carefully. Certainly no one expects patients not to use health care when they need it. But some patients stay in the hospital longer than medically necessary because they think they "need a rest", or to "get their money's worth". That last is foolish—by getting hospital and/or medical care when you don't really need it to "get your money's worth", you're increasing the chances that your health care is going to cost more in the future.

Some patients automatically ask their doctors to hospitalize them for ailments that could be treated just as well on an out-patient basis, or even, in some cases, be taken care of in the doctor's office.

Remember, because Blue Cross and Blue Shield of Florida are non-profit, the rates that subscribers pay for their coverage are determined mainly by the amount of benefits that subscribers use or will be using.

Always check the bills you receive from hospitals and doctors. Those who make out the bills are only human, and sometimes mistakes are made. Be sure that you received the services you were charged for.

Another way you can help hold down health care costs is to be aware of good health care practices and preventive measures. Heart disease, stroke and cancer are the biggest killers of Americans today, and many times are related to the victim's lifestyle.

The American lifestyle has been described as the greatest hazard facing us today, by the Department of Health, Education and Welfare in its first comprehensive report on the health of Americans.

The report went on to say that the key to better health care is better self care. Medical care alone can do very little to prevent a heart attack for example, if the person's lifestyle is bad. Most Americans think of themselves as being in good health, but many adults do not exercise regularly, and many have high blood pressure, but aren't aware of it.

A great number of health problems are brought on or are aggravated by excessive use of alcohol and tobacco, by lack of exercise and proper diet. They are preventable by changes in lifestyle.



A recent survey showed that one of every two patients getting check-ups was advised by his doctor to cut down on food and smoking, and to rest and exercise more.

Practice good health care measures. If necessary, alter your lifestyle. Get rid of the bad habits and begin some good ones. A person can add an estimated 14 years to his life by switching from a bad lifestyle to a healthier one.

*All of us  
helping  
each of us.*



**Blue Cross**  
of Florida



**Blue Shield**  
of Florida

P. O. Box 1798  
532 Riverside Avenue  
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(904) 791-6111

# News Release



Communications Department  
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FOR IMMEDIATE RELEASE

FOR FURTHER INFORMATION CONTACT:

A. D. Mancini (904) 791-6122  
G. C. Dyer (904) 791-6189

## BLUE CROSS & BLUE SHIELD SEEK RATE ADJUSTMENTS AT PUBLIC HEARING THURSDAY

(JACKSONVILLE) -- Blue Cross & Blue Shield of Florida appear before State Insurance Commissioner Philip F. Ashler Thursday, August 26, at a public hearing in Tallahassee to seek rate relief on approximately 138,000 contracts which are incurring losses of over \$1 million monthly. The contracts involved are about 15% of the company's total business.

J. W. Herbert, President of the Florida Plans, said that despite Blue Cross and Blue Shield's heavy cost containment involvement with areawide health planning councils, hospital prospective payment programs and utilization review programs -- health care costs and charges continue to rise.

"Broad public involvement is needed," he said. "We cannot control costs alone."

The proposed rate adjustments affect most contracts held by Floridians under age 65 who purchase their health care coverage direct or belong to groups of under 25 employees.

Blue Cross & Blue Shield also are asking for a revision to its \$250,000 Major Medical catastrophic illness endorsement held by some of its direct policyholders. This revision would involve no increase in rates but would change

the annual deductible requirement from \$100 to \$300 before Major Medical benefits were payable. There would be no change in the maximum benefits of \$250,000 under Major Medical.

For employer groups of under 25, rate increases also are sought for Major Medical coverage as well as diagnostic laboratory, x-ray and supplemental accident endorsements held by these groups.

The proposed rate adjustments are designed to produce an additional income of \$1.2 million per month to offset current losses on the affected contracts.

Herbert said that it always has been the philosophy of Blue Cross & Blue Shield that each category of contract should stand on its own experience and that subscribers covered on contracts that are financially sound should not end up subsidizing those covered by the contracts for which rate adjustments are being requested.

Herbert said his company sincerely regrets the need for the adjustment on the contracts in question but that usage of hospital and medical benefits by subscribers affected requires rate relief.

General inflation, higher hospital and medical costs and increased costs of malpractice insurance for both hospitals and physicians also are cited as contributing factors.

As an example, Herbert said, the average hospitalization cost for Blue Cross subscribers in 1975 resulted in a claim payment by Blue Cross of \$779.00. For the first six months of 1976, this had risen to \$859.00.

In-hospital ancillary payments by Blue Cross on behalf of subscribers -- such hospital charges as operating room, recovery room, laboratory and x-ray services -- rose from \$73.72 per day in 1975 to \$92.07 per day for the first six months of 1976, Herbert said.

He noted that usage of medical services by affected subscribers under their Blue Shield contracts had risen 25% in the past six years.

"The number of Blue Shield medical claims filed annually per 1,000 contracts increased from 1,269 per 1,000 contracts in 1970 to 1,588 per 1,000 contracts in 1975," he said.

The adjustments are being sought on four Blue Cross and seven Blue Shield contracts. Depending upon the type policy and benefits involved, proposed increases in Blue Cross contracts would range from \$1.22 to \$5.36 per month for a single contract to \$3.06 and \$10.42 for a family contract. Increases in the Blue Shield contracts would range from \$.22 to \$1.58 for a single contract to \$.58 and \$4.68 per month for a family contract.

10/24/75

BIOGRAPHICAL INFORMATION - J. W. HERBERT, PRESIDENT, BLUE CROSS OF FLORIDA, INC.  
PRESIDENT, BLUE SHIELD OF FLORIDA, INC.

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Birth Date: June 20, 1915, Scranton, Pennsylvania

Education: Graduated from Scranton University, Scranton, Pa., 1937

Employment Record: Medical Social Service Representative - State of Pa.

4 years in the Navy as Supply Officer on a hospital ship --  
Discharged as Lt. Commander

Joined Blue Cross of Chicago in 1945

Joined Blue Cross and Blue Shield of Florida, Inc., as  
Assistant Executive Director in 1948 (September)  
Became President of Blue Cross and Blue Shield of Florida, May 1970

Offices Presently  
Held:

Member of the Board of Governors of the Blue Cross Association

Member of the Board of Directors of Health Services, Inc.

Member of the Board of Directors of the Gator Bowl Association

Member of the FEP Board of Managers - Blue Cross Association

Member of the Board of Directors of the Florida Kidney Council

Member of the Board of Directors of the Jacksonville Health  
Planning Council

Member of the Board of Directors of the National Alliance of  
Businessmen

Offices Formerly  
Held:

Metro Chairman of the National Alliance of Businessmen

President of the Civitan Club of Jacksonville

Membership: San Jose Country Club, Jacksonville

River Club, Jacksonville--Member of the Board of Directors

Knights of Columbus

The Florida Council of 100 -- Resident Member

Home Address: 7647 Las Palmas Way  
Jacksonville 32216

Married

Children - 4 boys and 2 girls



Statement before the Insurance Commissioner  
for the State of Florida  
regarding the necessity of requesting  
an increase in rates on some Florida  
Blue Cross and Blue Shield contracts  
and riders.

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This presentation was made August 26, 1976  
by J. W. Herbert, President of Blue Cross  
of Florida, Inc. and Blue Shield of Florida, Inc.

Supportive information was presented by  
staff members and outside consultants  
as outlined within this material.

Your Honor, Mr. Commissioner, I am John W. Herbert, President of Blue Cross of Florida, Inc. and Blue Shield of Florida, Inc. Like many insurers, the pressing financial problems facing these two organizations make us especially appreciative of the opportunity to explain publicly the financial aspects of providing coverage for health care in Florida, and the effect it is having on those contracts and riders for which we are asking permission to increase rates.

The contracts which we are here to review today protect approximately 287,419 Floridians. Over all, Blue Cross and Blue Shield underwrite about 23% of the state's population, this being approximately 1,827,054 Floridians.

We have a great deal of material to cover today if we are to give you the factual and statistical information we feel you want and need to evaluate our financial situation. With this in mind, it is my intention to make my remarks as direct as possible and call on some of the people with me to cover specific areas of concern in our attempt to give you a complete report.



At this time I would like to introduce to you the following persons,  
and I ask that they stand as I call their names:

Representing the Boards of Directors -

Mr. Robert P. Evans, Board Member, Blue Cross of Florida, Inc.,  
C.P.A., Lakeland

Raymond Fitzpatrick, M.D., Board Member, Blue Shield of Florida,  
Inc., Gainesville

Joseph G. Matthews, M.D., Chairman of the Board, Blue Shield of  
Florida, Inc., Orlando

J. Champneys Taylor, M.D., Board Member, Blue Shield of Florida,  
Inc., Jacksonville

G. Emerson Tully, P.H.D., Vice Chairman of the Board, Blue Cross  
of Florida, Inc., Tallahassee

James W. Walker, M.D., Board Member, Blue Shield of Florida, Inc.,  
Jacksonville

Mr. W. Lester Varn, Jr., Board Member, Blue Cross of Florida, Inc.,  
Jacksonville

*Mr. Robert P. Evans, Board Member Blue Cross of Florida Inc.*  
Representing the Blue Cross and Blue Shield Staff -

W. J. Stansell, Senior Vice President - Marketing and External Affairs

J. D. Lewis, Jr., Senior Vice President - Benefits Administration

Wilbur Gay, Director, Actuarial and Underwriting

A. David Mancini, Director, Communications Department

W. R. Skelley, Vice President - Finance

John S. Slye, Vice President - Legal and Public Affairs

*Renee Ryan - Manager of Corporate Resource Analysis*

Also here to be of assistance are -

Mr. Seymore Fenichel, F.S.A., Consulting Actuary, Peat, Marwick,  
Mitchell and Company, New York

John R. Griffith, Professor, University of Michigan, Program and  
Bureau of Hospital Administration, School of Public Health,  
Ann Arbor, Michigan

David Klock, P.H.D., Professor of Insurance, Texas Tech University,  
Lubbock, Texas

Mr. Herbert E. Long, Administrator, Mercy Hospital, Miami

Mr. Jack F. Monahan, Executive Vice President, Florida Hospital  
Association, Orlando

Mr. H. P. Osborne, Jr., Attorney, Mathews, Osborne, Ehrlich, McNatt  
Gobelman and Cobb, Jacksonville

Mr. Claude Weeks, Administrator, Flagler Hospital, St. Augustine

There are three sections to our presentation and they are contained in the red, blue and green binders prepared for the Insurance Commissioner and his staff. Highlights of these materials have been distributed as Information Kits to the news media people and the general public present.

Volume 1.....contains the financial picture on those (green binder) contracts affected. It details our specific rate change requests, and the loss ratios by contract and/or rider.

Charts are contained in this volume which show the projection of income to expenses.

Actuarial projections are outlined and an index of the rate development and calculation.

Administrative cost control measures are outlined along with our most recent Quarterly Financial Reports to the Insurance Department for Blue Cross and Blue Shield.

This binder concludes with a review of what is happening to costs and utilization of benefits for both hospitals and physicians since our last request for an increase in rates last October.

Volume 2.....contains commentary on the role of a Blue Cross (red binder) and Blue Shield Plan in containing health care costs.

A status report on cost containment programs of Florida Blue Cross and Blue Shield is included.

Volume 3.....contains communications efforts both locally  
(blue binder) and nationally through news releases and  
advertising to educate the public to what  
Blue Cross and Blue Shield are doing, and  
what they must do, as individuals, to help  
contain costs.

Other public relations effort to assist  
subscribers and general consumers complete  
this volume.

Information Kits..excerpts from the three volumes prepared for  
the Insurance Commissioner and his staff  
contain materials intended to capsule our  
presentation so the news media and the public  
may more easily follow the proceedings in  
this room.

If anyone does not have one of these Information  
Kits, please raise your hand, for we would like  
for everyone to have this information.

#### Contents of Information Kits:

(A) Presentation of J. W. Herbert, President of Blue Cross and  
Blue Shield, which includes Exhibits showing the financial  
situation of Florida Blue Cross and Florida Blue Shield  
both current and projected:

- (1) Combined Blue Cross and Blue Shield experience on  
those contracts for which an increase is being requested.
- (2) A break-out of combined Blue Cross contract experience.
- (3) A break-out of combined Blue Shield contract experience.
- (4) A total corporate picture of Blue Cross.....all  
underwritten contracts.
- (5) A total corporate picture of Blue Shield.....all  
underwritten contracts.

(B) A news release relating that we are appearing at this public hearing and giving the news media information on who will be affected, and by how much, if the request for the increase is granted.

(C) A series of informational pamphlets in our continuing effort to educate our subscribers and the general public on:

(1) Our operating costs compared to our return in benefits.

(2) Our cost and rate containment programs.

(3) Inflationary effects on hospital and physician's charges.

(4) An information folder on healthier living habits as individual's personal cost containment program.

(5) Who are Blue Cross and Blue Shield?

CONTRACTS FOR WHICH A RATE INCREASE IS BEING REQUESTED

Although we realize the Insurance Department to be very knowledgeable on the financial structure of the two corporations, Blue Cross of Florida, Inc. and Blue Shield of Florida, Inc., I feel it is important, since this is a public hearing, that we take a few minutes to explain as simply as possible the basic rate structure of Blue Cross and Blue Shield.

Both corporations offer a number of contracts for four generalized categories of Florida's population. These contracts are filed with the Insurance Department, and are rated according to underwriting guidelines. The important thing to remember, when looking at a request from Blue Cross and Blue Shield to increase rates, is that each category of subscriber has a rate that is determined under the underwriting regulations for that specific category.....in other words, the premiums received from any one category of subscribers is applied to only that category, and one category does not financially support any other category of subscriber.

These generalized categories I speak of are:

(1) Direct Pay subscribers, which include -

(a) people who transfer to Florida from a Blue Cross-

Blue Shield Plan in another state, (b) subscribers who leave an employee group and convert to Single or Family contracts, (c) subscribers who apply directly to Blue Cross and Blue Shield as non-group members.

(2) Coverage known as Complementary Coverage for Florida residents over 65 years of age who qualify for Medicare.

(3) Group membership for subscribers who work where there are from 5 to 24 employees.

(4) Group membership for subscribers who work where there are from 25 employees on up.

| | The reason for reviewing in condensed form the rating of Blue Cross and Blue Shield subscribers by categories, as I have just attempted to do, is to answer any question that may arise as to why only some categories of subscribers..... that is, only some contracts.....have the need for an increase in rates.

The two general categories of subscribers for which we are not requesting a rate increase at this time are the Senior Citizens on Complementary Coverage and those subscribers covered in groups of 25 or more employees.

The reason for this is:

Complementary Coverage is a supplemental coverage to Medicare. Historically, the Federal Government has increased the front-end deductible on Medicare Part A, the hospital portion of Medicare, on an annual basis. It has also increased the beneficiaries' co-insurance payments where applicable to Part A benefits. Blue Cross has always picked up these increased deductible and co-insurance payments, so naturally must base its rate on what its responsibility to its Complementary Coverage subscriber will be. We have not heard at this time the intention of the Federal Government in regards to changes in these deductible and co-insurance features for 1977, and consequently are unable to determine whether the current rates on Complementary Coverage are going to hold, or for how long they will hold.

In addition, Blue Shield has always paid the 20% not paid by Part B and this, along with the ever-increasing number of claims, means that this rate must be monitored continuously.

Employee groups of 25 or more employees are rated annually on their specific group experience, so they are not involved in a request for rate changes in a pooled category such as I have just defined.



CONTRACTS ON WHICH AN ADJUSTMENT IN RATES IS NECESSARY

As of July 31, 1976

- \*Blue Cross Type "F".....Non-Group contract offered on a non-group basis with medical underwriting.....26,803 contracts.
- \*Blue Cross Type "J".....Direct Payment contract offered as a conversion contract to former group subscriber.....81,697 contracts.
- Blue Cross Type "P".....Preferred Group contract offered to all size groups, but this rate increase application only applies to self-adjusting rated groups from 5 to 24 employees.... 28,170 contracts.
- \*Blue Cross Type "H".....Direct Payment contract offered as a conversion contract to former Federal Employee Program subscribers..... 1,232 contracts.
- \*Blue Shield Type "K"....Direct Payment contract offered as a conversion contract to former group subscribers.....76,272 contracts.
- Blue Shield Type "K"....Group contract.....this rate increase application only applies to self-adjusting groups from 5 to 24 employees .....10,196 contracts.
- Blue Shield Type "A"....Group Contract offered to all size groups, but this rate increase application only applies to self-adjusting groups from 5 to 24 employees.....11,529 contracts.
- Blue Shield Type "B"....Group contract offered to all size groups but this rate increase application only applies to self-adjusting groups from 5 to 24 employees.....6,849 contracts.
- \*Blue Shield Type "V"....Direct Payment offered as a conversion contract to former group subscribers and as a transfer-in contract for subscribers moving to Florida from other Blue Shield Plan areas.....2,534 contracts.
- \*Blue Shield Type "F"....Non-Group contract offered on a non-group basis with medical underwriting.....1,562 contracts.
- \*Blue Shield Type "H"....Direct Payment offered as a conversion contract to former Federal Employee Program subscribers..... 1,231 contracts.

\*Proposed effective date of October 1, 1976 for all contracts other than group;  
a November 1, 1976 effective date is requested for group contracts listed above.

BLUE CROSS AND BLUE SHIELD RIDERS ON WHICH AN ADJUSTMENT IN RATES IS NECESSARY

July 31, 1976

Major Medical	<u>25,493</u> riders for groups of less than 25 employees separated into two categories: ( <u>21,506</u> MM contracts with no Dental coverage, plus - <u>3,987</u> MM contracts with Dental coverage)
Outpatient Diagnostic X-ray and Laboratory	<u>38,788</u> riders offered on group contracts - only those for groups under 25 will be affected.
Supplemental Accident	<u>137,900</u> riders offered on group contracts - only those for groups under 25 will be affected.

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TOTAL OF PROPOSED RATE ADJUSTMENTS

The proposed rate adjustments are designed to produce an additional income of \$1.2 million per month to offset current and projected losses.

## DIRECT PAY MAJOR MEDICAL

In order not to have an increase in rates in our Major Medical rider for our Direct Pay subscribers, we are suggesting increasing the deductible from \$100. to \$300. before Major Medical benefits are payable. There is no change in the \$250,000. maximum under Major Medical.

CONTRACTS AND RIDERS NOT AFFECTED BY THIS REQUEST FOR A RATE ADJUSTMENT

<u>Type</u>	<u>July 31, 1976 Number of Contracts</u>
Blue Cross and Blue Shield merit-rated contracts for all groups of 25 or more employees	445,225
Student "Preferred" Blue Cross	5,556
Student "Type K" Blue Shield	5,556
Type "T" Blue Shield (Non-group contract medically underwritten)	25,123
*Blue Cross and Blue Shield Federal Employee Program	59,207
Blue Cross and Blue Shield Complementary Coverage Program	257,186
Type "J" Blue Cross for all groups of less than 25 employees	1,389
Type "U" Blue Shield for all groups of less than 25 employees	900
Blue Cross and Blue Shield Extended Benefits (rider)	2,052
Blue Shield Prescription Drugs (rider)	19,228

\*The Federal Employee contract is rated on a nation-wide basis.

Following are graphs which visually show the current and project the future financial impact the corporations will experience should the current rates be maintained.

GRAPHIC PROJECTIONS OF INCOME AND EXPENSE

BLUE CROSS OF FLORIDA, INC.  
AND  
BLUE SHIELD OF FLORIDA, INC.

REVISED  
AUGUST 24, 1976

The following charts are graphic presentations showing the financial performance of Blue Cross of Florida, Inc. and Blue Shield of Florida, Inc. These charts were prepared by a method independent of the method used for the actuarial forecast. This independent analysis was required for a graphic type presentation of month-to-month data as opposed to the rating period data used by our actuaries. The base period historical data and the conclusion that both Blue Cross of Florida and Blue Shield of Florida require a rate increase, is the same for both the financial and actuarial methods. Due to differences between the financial and actuarial projection periods, the forecasts are not directly comparable, but end results clearly indicate the need for the requested rate increases.

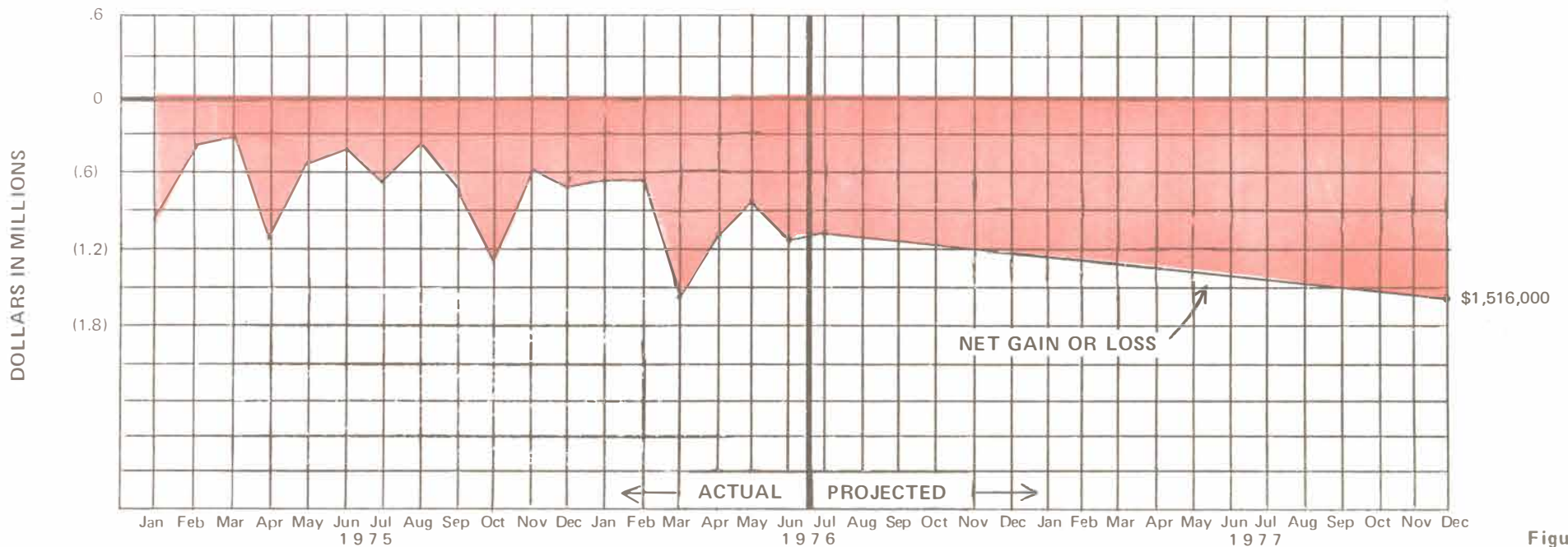
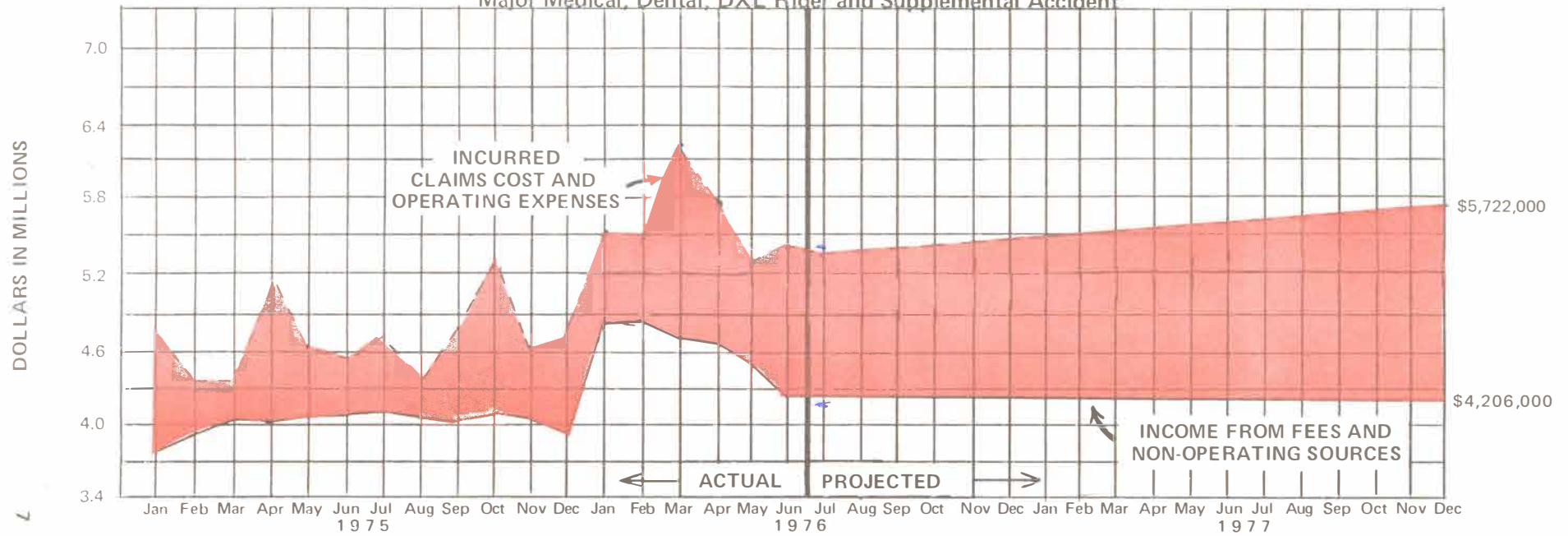
The charts which follow show the financial impact on Blue Cross of Florida, Inc. and Blue Shield of Florida, Inc., should the trends in income and expenses experienced in the recent past, continue into the future. Actual data used in these charts illustrates financial performance for the period of January, 1975 thru June, 1976. Projections were made by fitting trend lines to the data points. Upper graphs show monthly comparisons of income and expense. Red areas indicate areas where expenses exceed income. Black areas indicate areas where income exceed expenses. Lower graphs vary in meaning from figure to figure. Numbers in the right margin show projected performance for December, 1977. Performance for other months can be read on the scale in the left margin.

- Figure 1 Combined Blue Cross and Blue Shield financial performance for contract types on which rate increases have been requested. Lower graph shows the difference between income and expense shown in the upper graph expressed as the amount of gain or loss. Red areas indicate loss.
- Figure 2 Combined Blue Shield financial performance for contract types on which rate increases have been requested. Lower graph shows the difference between income and expense shown in the upper graph expressed as the amount of gain or loss. Red areas indicate loss.
- Figure 3 Combined Blue Cross financial performance for contract types on which rate increases have been requested. Lower graph shows the difference between income and expense shown in the upper graph expressed as the amount of gain or loss. Red areas indicate loss.
- Figure 4 Combined Blue Shield financial performance for all under-written lines of business. Lower graph shows the cumulative impact of financial performance on Blue Shield's Statutory Reserve for Contingencies. The number in the right margin indicates the projected level of reserves as of the end of December, 1977. It should be noted that when the reserve for contingencies equals zero, the plan is technically bankrupt. Reserve levels for other months can be read on the scale in the left margin.
- Figure 5 Combined Blue Cross financial performance for all under-written lines of business. Lower graph shows the cumulative impact of financial performance on Blue Cross's Statutory Reserve for Contingencies. The number in the right margin indicates the projected level of reserves as of the end of December, 1977. Reserve levels for other months can be read on the scale in the left margin.



# BLUE CROSS OF FLORIDA AND BLUE SHIELD OF FLORIDA

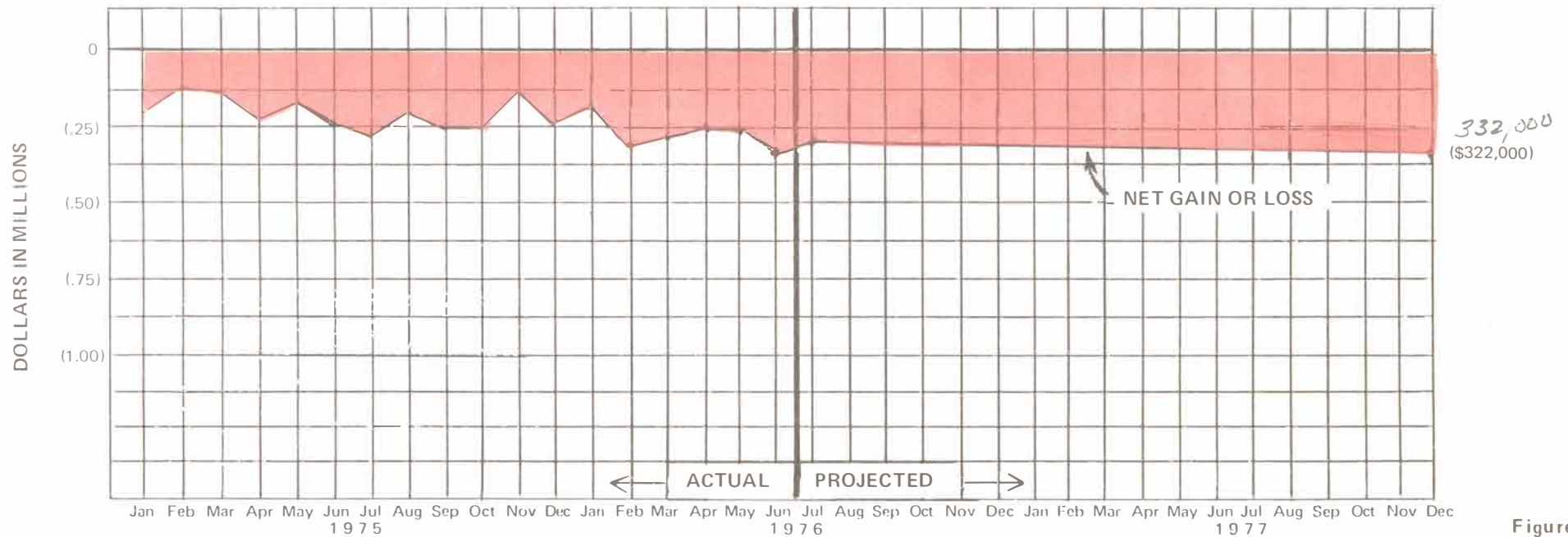
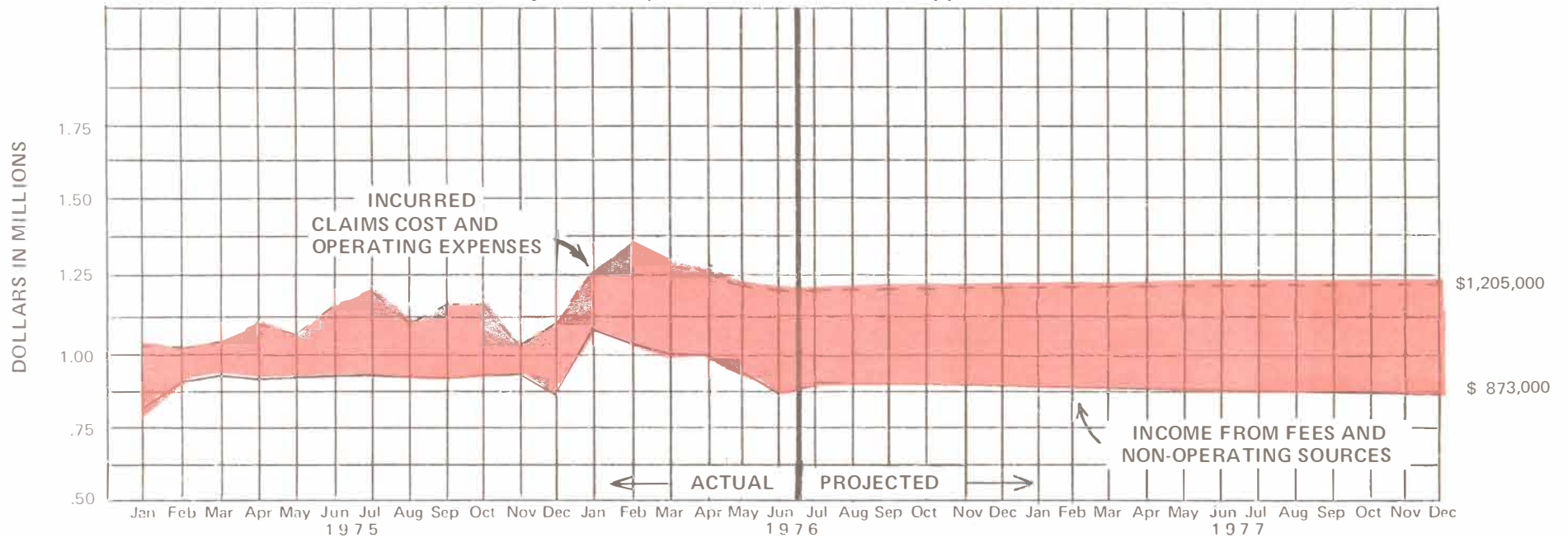
Group Payments - Type Preferred, Type K, Type A, Type B,  
Direct Payments - Type F, Type J, Type H, Type K, Type V  
Major Medical, Dental, DXL Rider and Supplemental Accident



NOTE: In the month of September, 1975, transactions were effected to give balance sheet effect to FEP and National Accounts reserve requirements. 8/23/76  
The results of these transactions are reflected in this income/expense chart as a net transaction.

Figure  
# 1

**BLUE SHIELD OF FLORIDA**  
 Group Payment - Type K, Type A, Type B  
 Direct Payment - Type K, Type V, Type F, Type H  
 Major Medical, Dental, DXL Rider and Supplemental Accident

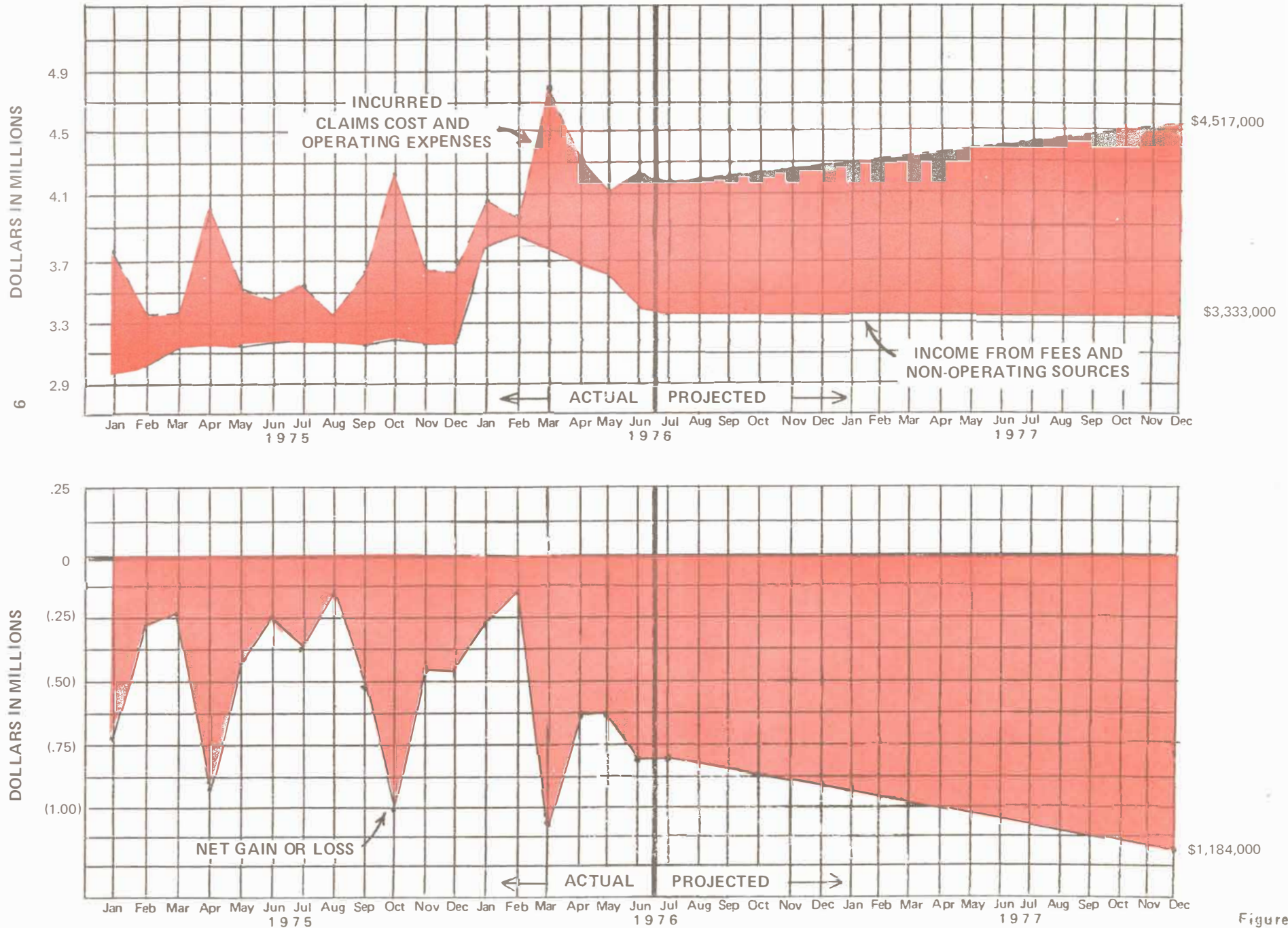


NOTE: In the month of September, 1975, transactions were effected to give balance sheet effect to FEP and National Accounts reserve requirements. 8/23/76  
 The results of these transactions are reflected in this income/expense chart as a net transaction.

Figure  
# 2

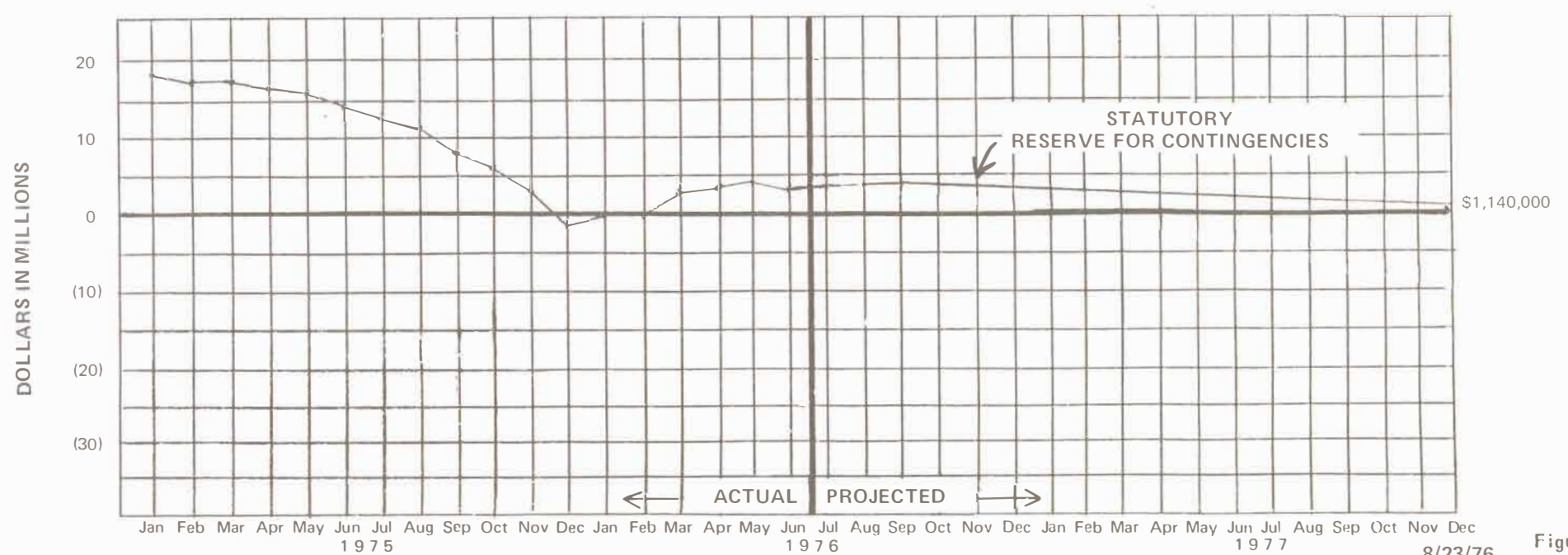
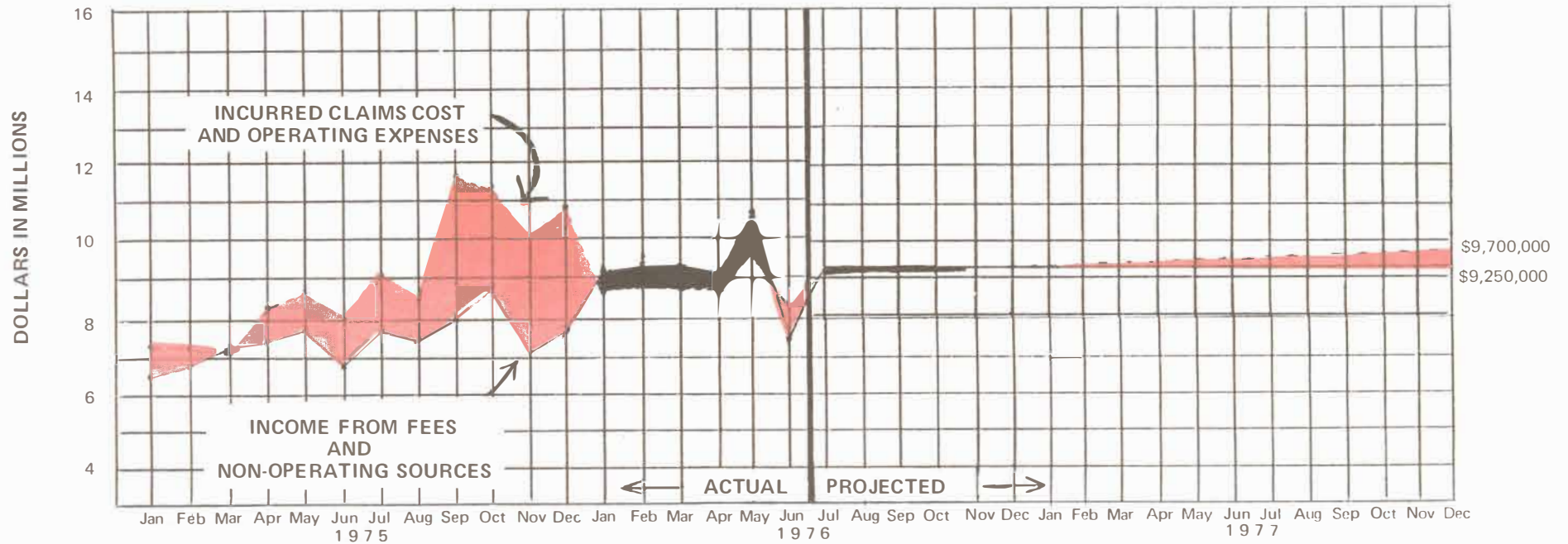


**BLUE CROSS OF FLORIDA**  
**Group Payment - Preferred Type**  
**Direct Payment - Type J, Type F, Type H**  
**Major Medical, Dental, DXL Rider and Supplemental Accident**



**NOTE:** In the month of September, 1975, transactions were effected to give balance sheet effect to FEP and National Accounts reserve requirements. 8/23/76  
The results of these transactions are reflected in this income/expense chart as a net transaction.

# BLUE SHIELD OF FLORIDA ALL LINES OF UNDERWRITTEN BUSINESS



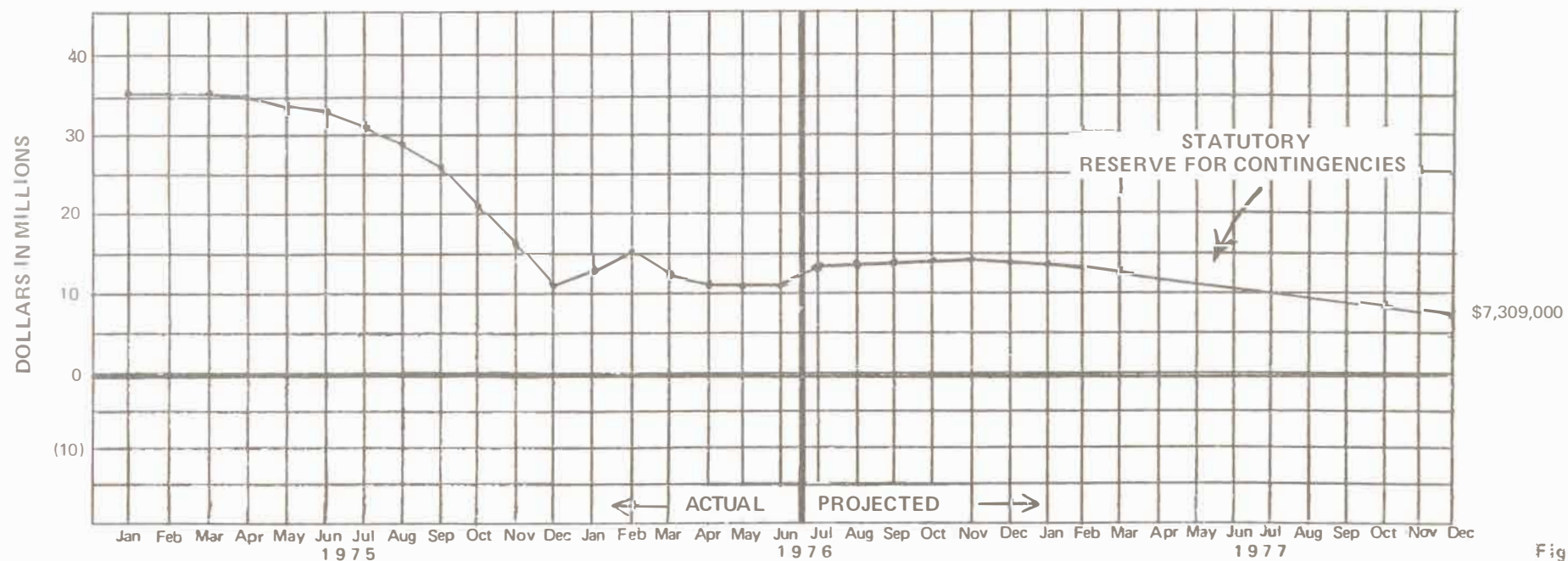
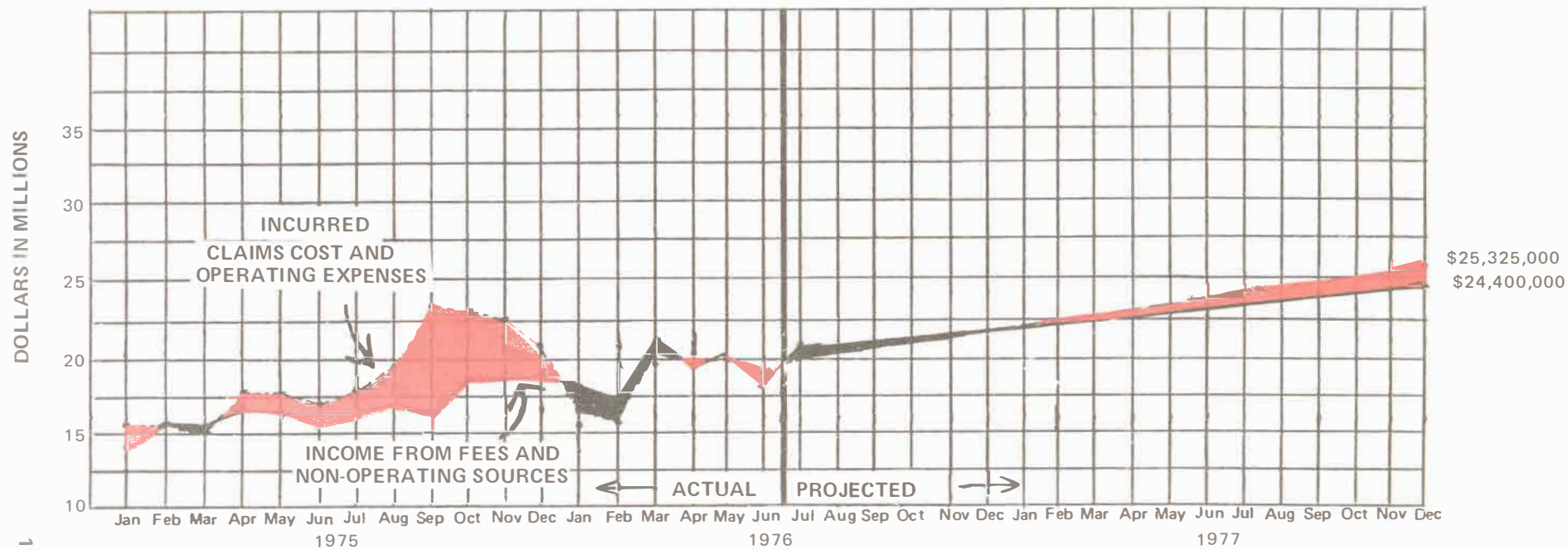
NOTE: In the month of September, 1975, transactions were effected to give balance sheet effect to FEP and National Accounts reserve requirements. The results of these transactions are reflected in this income/expense chart as a net transaction.

8/23/76

Figure  
# 4



# BLUE CROSS OF FLORIDA ALL LINES OF UNDERWRITTEN BUSINESS



NOTE: In the month of September, 1975, transactions were effected to give balance sheet effect to FEP and National Accounts reserve requirements. 8/23/76  
The results of these transactions are reflected in this income/expense chart as a net transaction.

Figure  
# 5

SOCIO-ECONOMIC CONDITIONS IN THE HEALTH FIELD AFFECTING BLUE  
CROSS AND BLUE SHIELD RATES

There is no simple explanation as to why the cost of health care is rising so rapidly, but there is obviously a direct correlation of this upward spiral to the question as to why health insurance carriers are having so much trouble in keeping their benefits up and at the same time keeping their rates within the financial reach of consumers.

Factors affecting rising hospital and physician charges can be basically laid to two elements. INFLATION and higher premiums hospitals and physicians must pay for PROFESSIONAL LIABILITY INSURANCE, commonly referred to by the news media as Malpractice Insurance. Hospitals have discovered that when their liability insurance contracts have expired of late, that the new premium was from 400 to 500% higher. Physicians have been known to have their malpractice insurance go from \$4,000. annually to a premium of \$14,000., and in some cases even higher, dependent on their medical speciality.

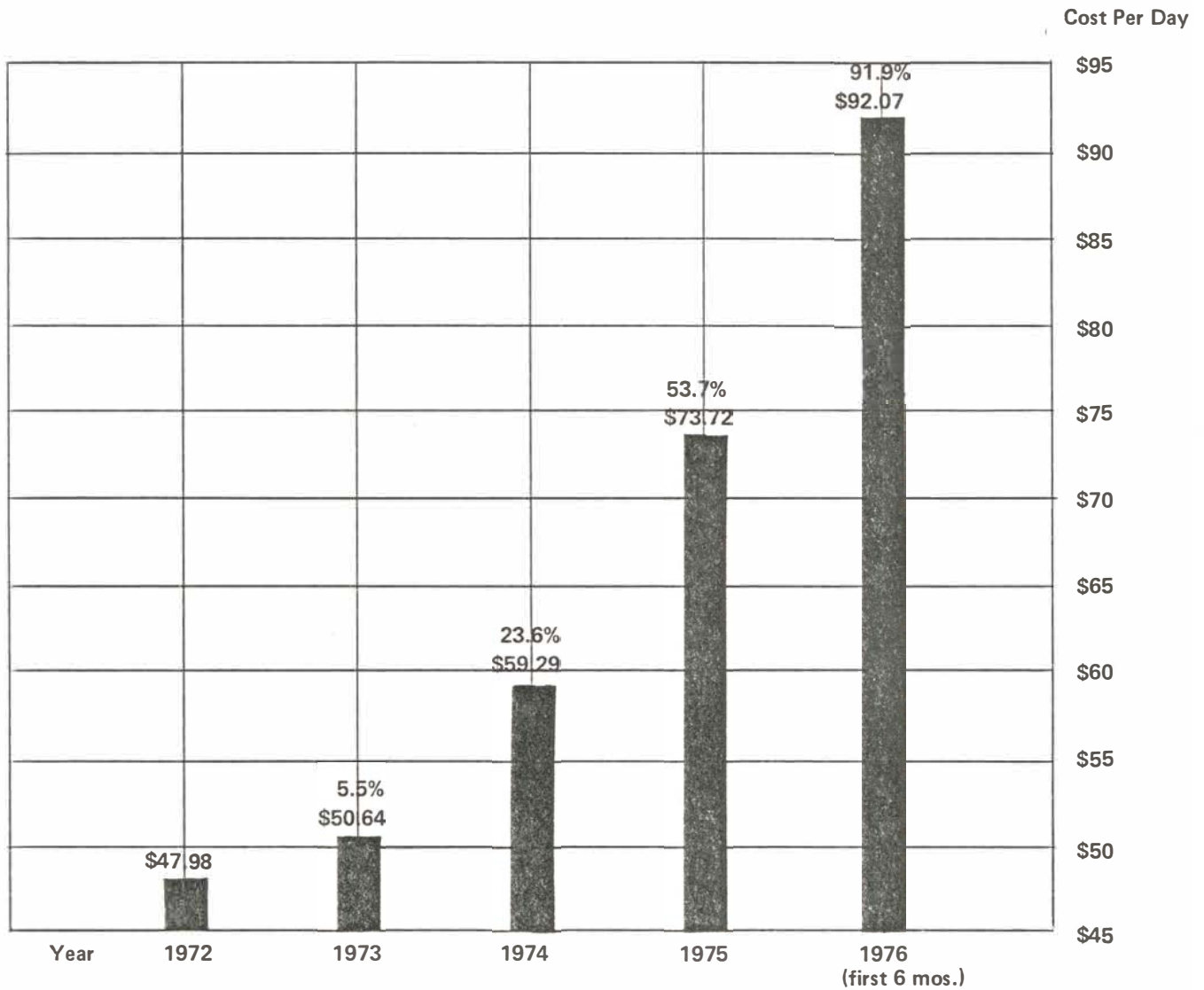
As to inflation, which we are all very much aware of personally, I think it sufficient to say that the cost of such necessities as electricity, water, food, fuel, laundry, clothing, labor, etc., are all very inflated items in our economy and they play a major role in providing hospital care. Hospitals' budgets are being strained to the limit.....or beyond the limit, I should say. The same goes for the physician's needs in maintaining an office.

So while we accuse inflation and increased liability insurance as the two underlying factors for increased health care costs in general, we must add a third ingredient.....that of INCIDENCE when we talk about health insurance rates. More people are going to their physicians more often and they are obtaining more services when admitted as bed patients in the hospital. The increased incidence of people going to their physician more often, can only be answered by assumptions. We assume that patterns of living today are destructive to personal health....such as obesity, consumption of alcohol, smoking....tension and stress, etc. These cause more people to seek medical care. By the same token, more information is being disseminated these days on cancer detection, blood pressure checks, etc. Such information, which in the long run, should have a positive affect on leveling off health care utilization, in the short run is making more people aware of the importance of keeping in touch with their physician for early detection of such diseases and health problems.

As an example of the impact inflation can have, the following chart will show how daily ancillary charges paid by Blue Cross for inpatient care have jumped between 1972 and 1975. Between 1975 and the first six months of 1976, our payment per day went up 24.9%.



# INPATIENT ANCILLARY AMOUNT PAID PER DAY BY BLUE CROSS



This chart shows the increase in inpatient ancillary costs per day from 1972 through 1975 of 53.7%.

From 1972 through the first six months of 1976 it is 91.9%.

The following table shows the increased incidence that Blue Shield contracts are experiencing. Shown are the combined totals of the categories containing those contracts for which a rate increase is being requested. Unfortunately, we did not have at our disposal statistics on the first six months of 1976, but I would like to point out to you the 10.2% increase for 1975 over 1974, and how much greater that is over previous years.

Number of claims per thousand contracts a year

1970 .....	1,269		
	<hr/>	3.2% inc.	
1971 .....	1,310		
	<hr/>	6.1% inc.	
1972 .....	1,390		
	<hr/>	0.6% dec.	
1973 .....	1,381		25.1% inc.
	<hr/>	4.3% inc.	
1974 .....	1,441		
	<hr/>	10.2% inc.	
1975 .....	1,588		

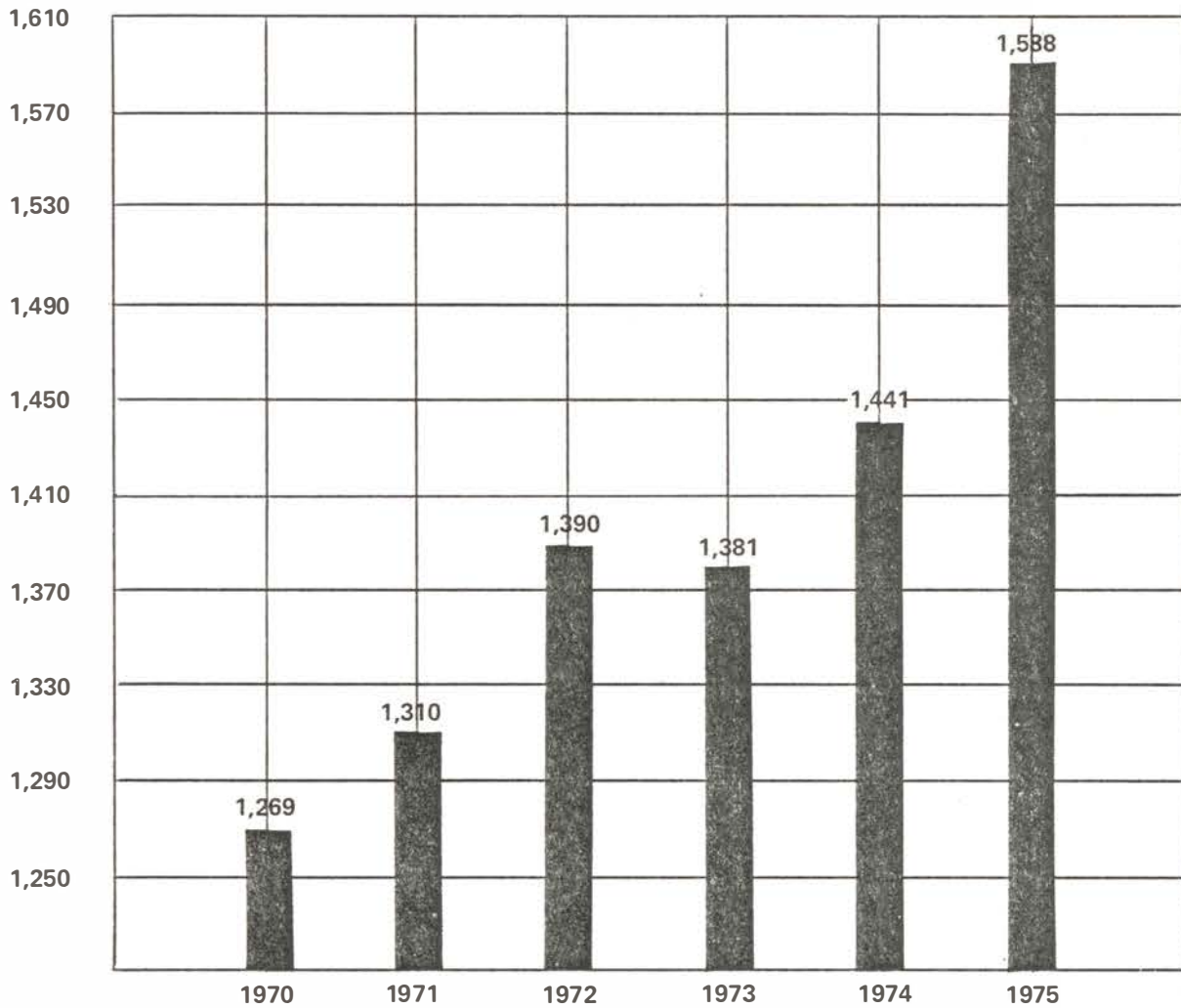
The increase in the incidence (usage of the contract) is the direct reason for the need to raise rates on the Blue Shield contracts listed previously in this report. Inasmuch as these are indemnity, fixed fee schedule contracts, increases in physicians' charges are absorbed by the patient/subscriber or his Major Medical coverage, and are not a factor in changes in the Blue Shield basic contract rate.

On the following page this same statistical information is shown in the form of a bar chart.

BLUE SHIELD OF FLORIDA, INC.  
INCIDENCE PER CONTRACT

Combined Total for Categories Containing Those Contracts  
for which a Rate Increase is Being Requested

(Per Thousand Contracts)

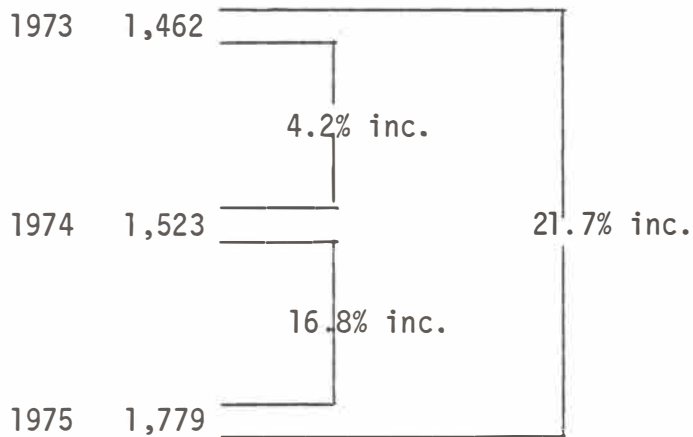


# BLUE SHIELD

THE PERCENTAGE INCREASE IN INCIDENCE BREAKING OUT THE DIRECT PAYMENT FROM THE GROUP CONTRACTS ON THOSE CONTRACTS FOR WHICH A RATE INCREASE IS SOUGHT.

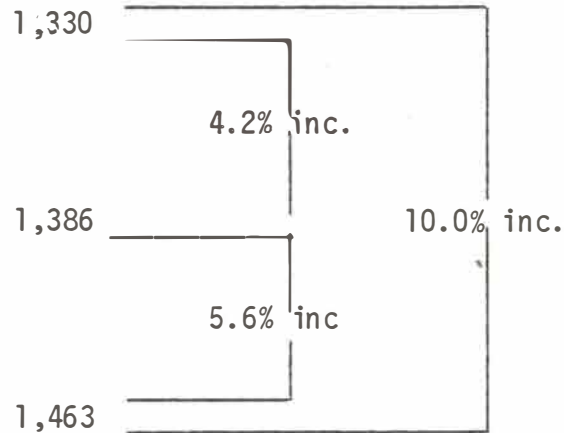
(1973 through 1975)

## GROUP



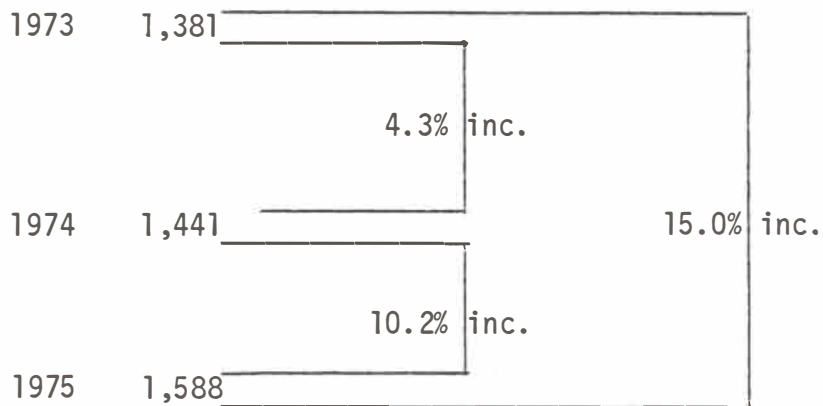
There were 317 more claims paid out of every 1000 contracts in 1975 over 1973.

## DIRECT



There were 133 more claims paid out of every 1000 contracts in 1975 over 1973.

## COMBINED GROUP AND DIRECT



There were 207 more claims paid out of every 1000 contracts in 1975 over 1973.

Having looked at how many more Blue Shield subscribers are using their contracts, let's take a look at how many more inpatient Blue Shield claims are being filed per hospital admission.

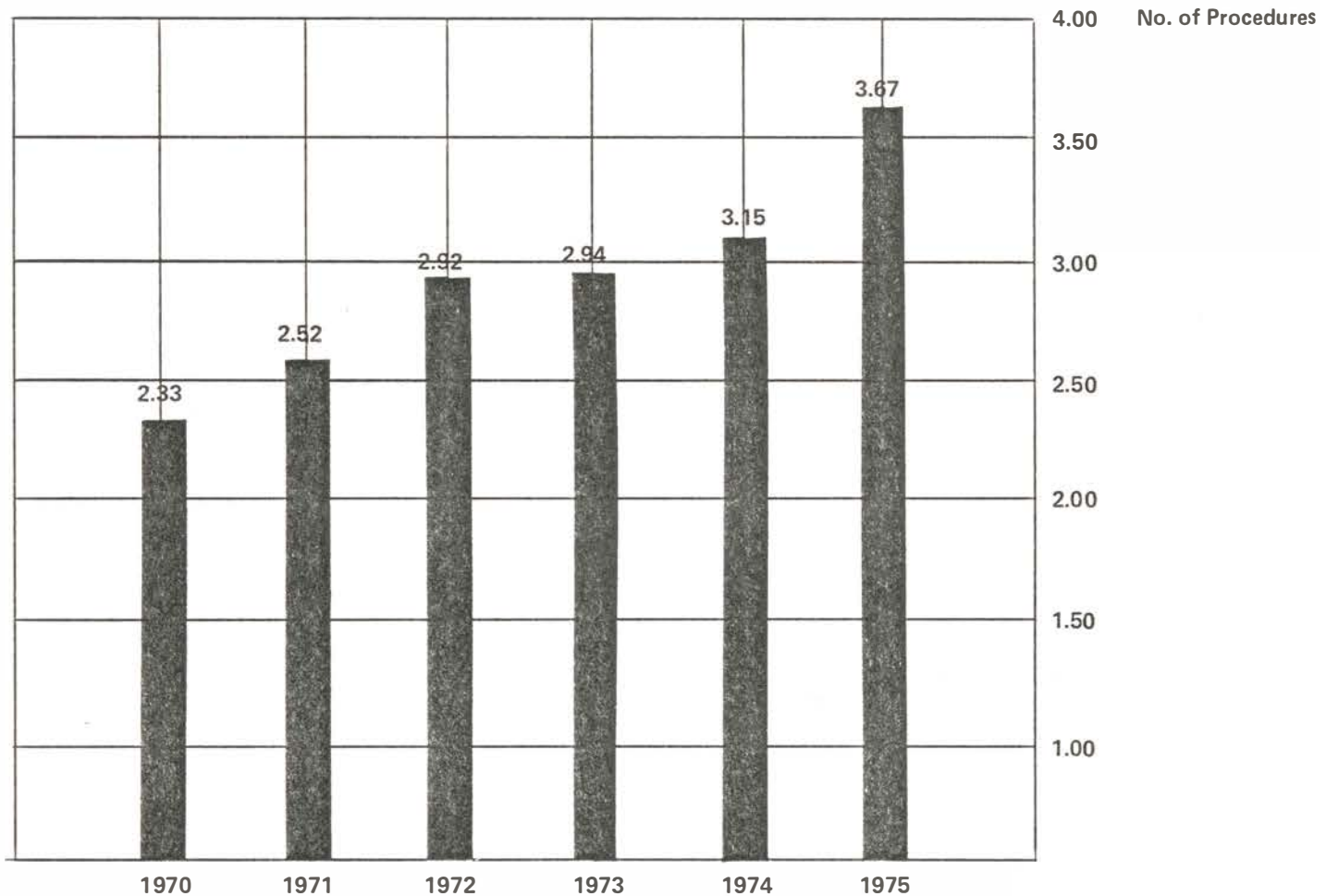
Number of Inpatient Blue Shield  
Claims per Hospital Admission

1970 .....	2.33
1971 .....	2.52
1972 .....	2.92
1973 .....	2.94
1974 .....	3.15
1975 .....	3.67

This rising number of services being ordered reflects back to what we spoke of earlier....the physician's trend toward practicing defensive medicine by ordering such things as the maximum number of x-ray and laboratory procedures because of his concern over a malpractice suit.

These same figures are shown statistically in a bar chart on the next page.

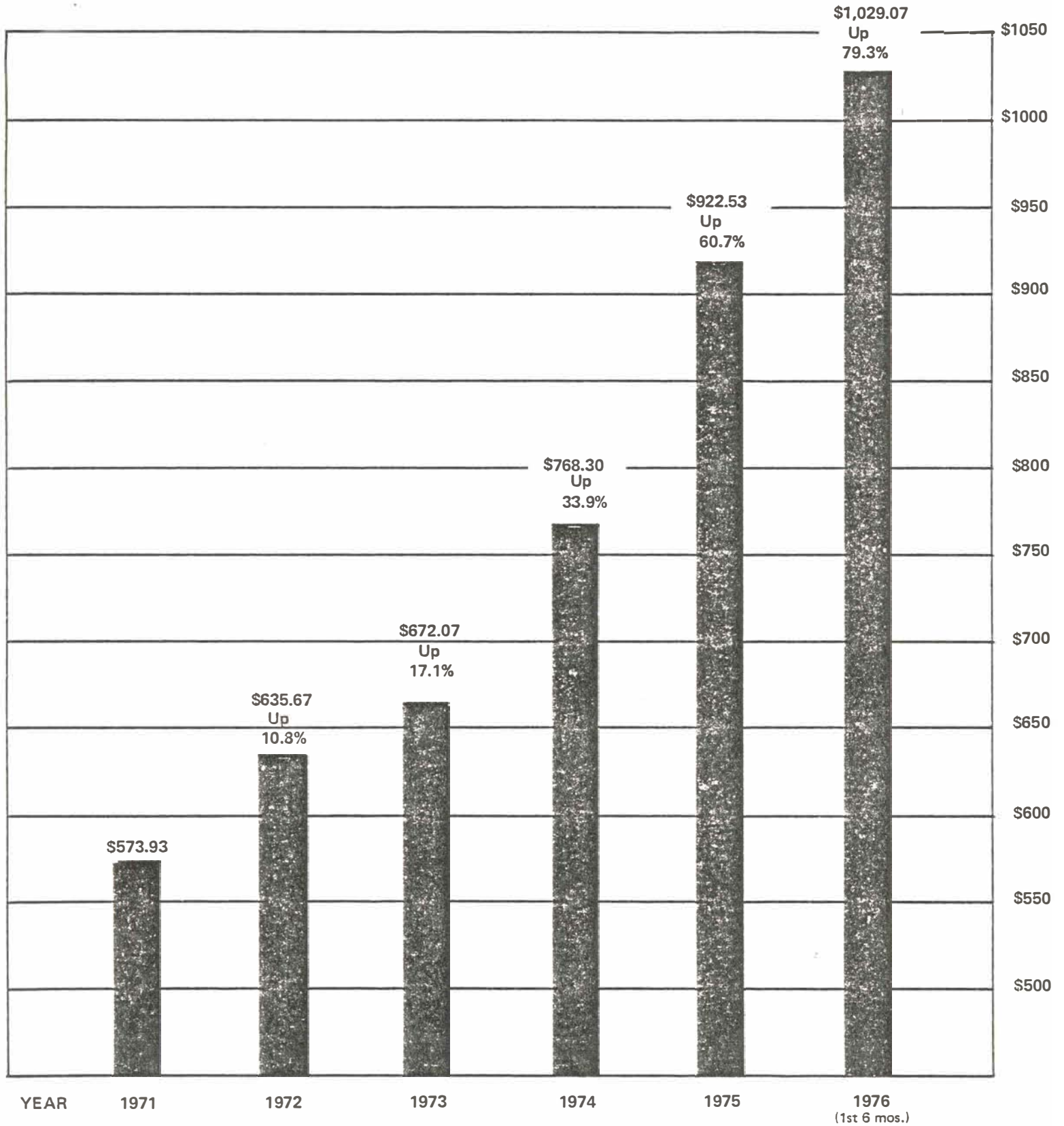
NUMBER OF INPATIENT BLUE SHIELD CLAIMS  
PER HOSPITAL ADMISSION



The above graph shows the increasing number of claims submitted by physicians for each hospital admission.

Now let's take a further look at inflationary pressures on hospital cost, as reflected in the increased charges billed by hospitals per "case" and per "day" to Blue Cross.

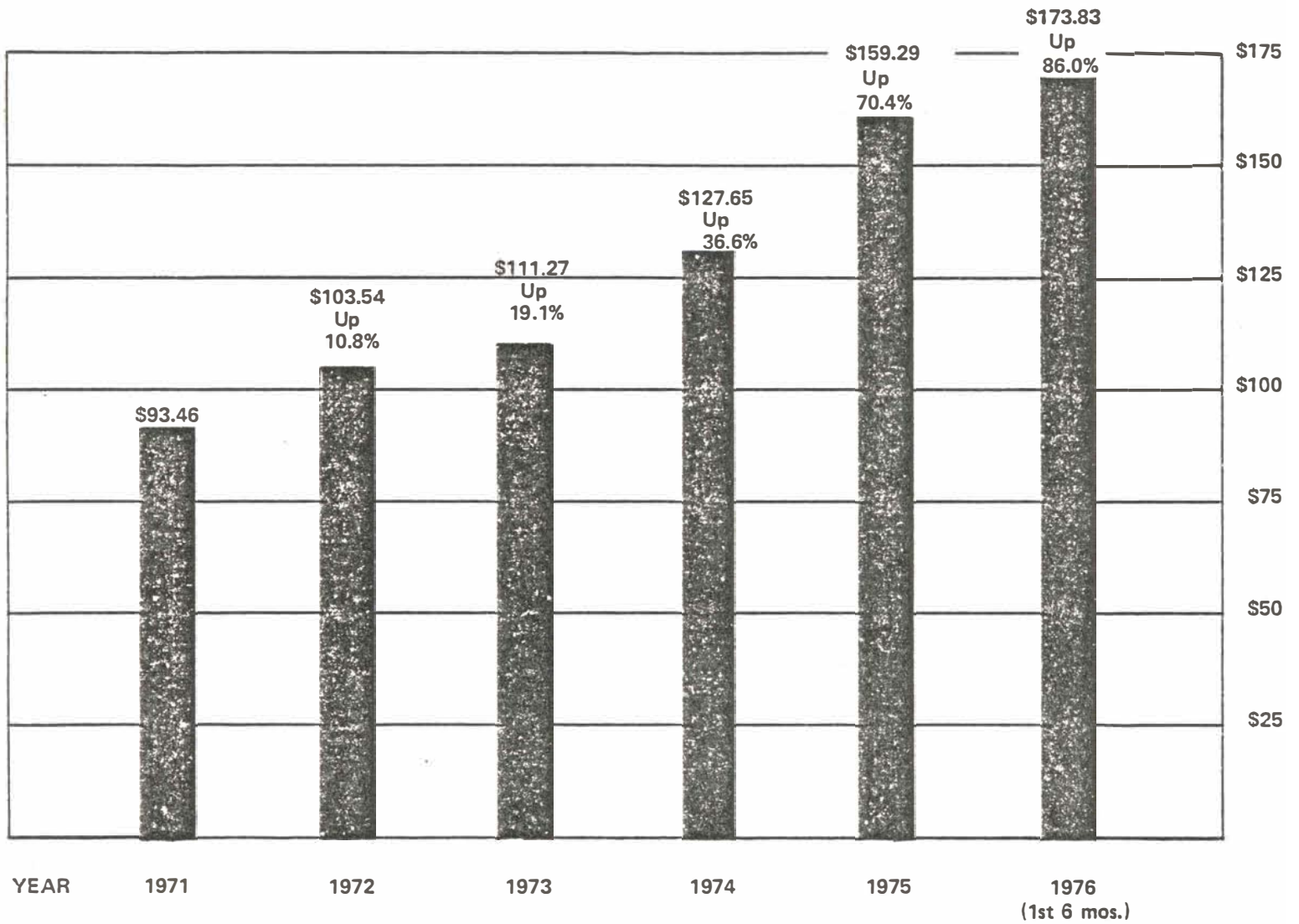
# AVERAGE BILLED CHARGE PER CASE



This chart shows the increase in the average charge per case in Florida hospitals since 1971.



### AVERAGE BILLED CHARGE PER DAY



This chart shows the increase in the average charge per day in Florida hospitals since 1971.

I will skip the next 6 pages which deal with our cost containment efforts, inasmuch as it is reviewed in detail in the red binders prepared for you, Mr. Commissioner and your staff, and will be reviewed later today by Professor John Griffith of the University of Michigan, and Mr. W. J. Stansell, our Senior Vice President. But I do want these cost containment efforts to appear here for the benefit of those not in the Insurance Department, especially the news people present who may wish to use this presentation in view of the wide spread interest in this subject.

PROGRAMS OF COST CONTAINMENT.....ON-GOING AND RECENTLY

INNOVATED EFFORTS

Utilization Review Committees.....Blue Cross will not contract with a hospital that does not have a functioning Utilization Review Committee. By functioning, we mean the Committee made of hospital staff physicians must be actively studying patterns of treatment and length of stay with the hospital for medical necessity.

Hospital Rate Review.....negotiations with hospitals on their requests for Blue Cross to accept rate increases will result in an estimated savings of \$656,335 in one year's time, based on actual savings for a period of ten weeks. Negotiations are based on comparisons of what other hospitals of similar size and type are charging within a specific geographic area.

Home Health Care.....originally considered to be an effective cost containment program on the assumption that it would keep patients out of expensive hospital facilities, careful studies have shown that rapidly increasing costs of providing this type of care requires further research to be sure that it will reduce the total cost of care to our subscribers, rather than resulting in an increase cost in one type of care without a greater proportion of decrease of costs for institutional care.

Area-Wide Planning.....new hospitals or additions or services over \$100,000. capital cost are not being accepted by Blue Cross unless planned and built in compliance with certificate of need requirements as set forth in the Florida Statutes.

Prospective Hospital Payment.....the Blue Cross Board has approved this recommendation, and beginning October 1, 1976, over 200 Florida hospitals will begin to co-operate with this new system, effective with the beginning of their fiscal year.

Prospective payment, in over-simplified terms means that at the beginning of a hospital's fiscal year it will be determined what the "reasonable charges" are for that particular hospital for its coming year. Once these charges are established, hospitals will operate within these set charges without increasing rates, except for highly unusual circumstances. If their costs exceed the established budget level, they absorb the loss.....

If they operate under that level.....they have the benefit of the monetary difference between that level that was set and the lower level at which they operate.

Uniform Reporting Systems.....our new criteria for contracting hospitals requires that hospitals agree to use the uniform classification of accounts based on categories of Blue Cross contract covered services when billing us. This gives Blue Cross a more efficient means to evaluate and to compare the reasonableness of hospital charges.

Audited Hospital Statements.....contracting hospitals are required to furnish annual audited financial statements to improve our ability to judge the reasonableness of financial needs.

Outpatient Hospital Care.....all Blue Cross and Blue Shield contracts provide for outpatient hospital care for minor surgery and Emergency Room care. Blue Cross has also contracted with five free-standing ambulatory surgical centers, which provide for less intensive and less costly institutional care for surgical procedures in an outpatient setting. We also make available to all group subscribers outpatient diagnostic laboratory and x-ray services.

Second Medical Opinions for Elective Surgery.....our role here has been to monitor what is being done elsewhere, and it is our feeling that further studies need to be made. As an example, the auto accounts requested that Michigan Blue Cross develop a Second Opinion Program. Michigan Blue Cross

has estimated that it will cost approximately \$1,000,000. per year to implement such a program. The New York program has been in effect since the first of 1976, and as of August 1, 1976, 730,000 subscribers have the option of Second Opinion and only 203 have used it. Such factors in other programs make us realize close monitoring of them is necessary to be sure such a program will be worth the necessary commitment of time and money here in Florida.

Pre-Admission Testing.....an on-going educational program to physicians about the present pre-admission testing benefits available under Blue Cross and Blue Shield contracts is continuing. In addition, we are doing pilot studies on post-discharge testing, hoping it will lead to quicker discharge from the hospital for many patients by providing payment for diagnostic tests after discharge.

HMO Pilot Program Development.....effective September 1, 1976, more than 3,000 Blue Cross and Blue Shield employees and their families, who have selected an HMO type program instead of their regular Blue Cross and Blue Shield Program will receive their care from the Health Maintenance Program in the Jacksonville area. If successful in controlling costs, such programs will be considered for offering to other employee groups.

Support of Management Consulting Services.....we have filed with the Insurance Department and received approval of a \$500,000. revolving fund which will be lent to selected contracting hospitals to help them finance management consulting studies. Our first such loan for \$67,000. is now being considered for approval by the Blue Cross Board Cost Containment Committee.

Coordination of Cost Containment Information for Hospitals.....literature is being distributed to hospitals which reports on various actions which hospitals can take to effect possible reductions in costs.

Public Information Programs.....one of our major consumer informational programs is a second seminar to be held in Tampa, September 15th, 16th and 17th at the Host International Hotel. The title of the program is "Optimizing Cost Containment in Medical and Health Care". Last fall a similar seminar was held in Orlando titled "The Optimum Utilization of Health Care Facilities". These seminars are open to the public and many outstanding business leaders, government officials, including yourselves, and other interested parties have been issued an invitation to attend. In addition, miscellaneous appearances on television, radio and before civic groups have helped us to gain knowledge of consumer interests

and concerns, and also enabled us to explain many questions asked of us.

Physician Involvement.....Cost Containment Committees of the Florida Medical Association and the Blue Shield Board of Directors have been appointed to explore and implement various Cost Containment measures aimed at controlling costs in both medical and institutional services.

On-Going Programs.....in addition to the above mentioned programs we are continuing to support, implement or explore, we would like to report actual dollar savings that have been realized through various on-going cost containment savings programs involving the administration of our contracts.

Coordination of Benefits.....(the non-duplication of paying benefits when another carrier is the prime carrier).....for the fiscal year 1976, \$8,380,397. was saved on all contracts.

Medicare Carve-Out.....(non-duplication of what Medicare pays).....for the fiscal year 1976, \$14,785,117. was saved on all contracts.

Subrogation.....(non-duplication of what automobile insurance pays).....savings for the fiscal year 1976 was \$312,786.

UCR Blue Shield Contract Charge Reductions.....savings of \$3,263,824. were realized in the fiscal year 1976

through charge reductions on Blue Shield's Usual, Customary and Reasonable contracts in which physician care contracts provide for physicians to accept the payment as the full fee.

Sixty Day Notice From Hospitals On Charge Increases.....

a savings of \$10,500,000. was realized in the fiscal year of 1976 through the requirement that hospitals must give Blue Cross sixty days notice before increasing a charge.

Hospital Audit Savings.....for the fiscal year 1976,

\$249,112.65 was saved by Blue Cross through its auditing of hospital records.

CONCLUSION OF OPENING REMARKS

At this point I would like to turn the podium over to Mr. Seymore Fenichel, Consulting Actuary with Peat, Marwick, Mitchell and Company of New York.

Mr. Fenichel will review for you actuarial material for the requested rate adjustments and the proposed increase in the Major Medical deductible.

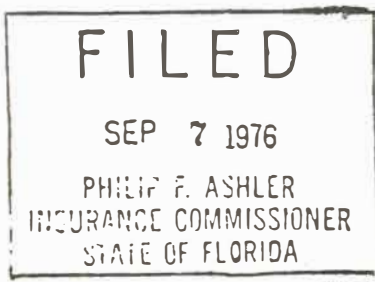
I will be back later to review Blue Cross and Blue Shield's Administrative Cost Reduction Measures. Thank you for your attention.



Philip F. Ashler

STATE TREASURER  
INSURANCE COMMISSIONER  
FIRE MARSHAL

1973



Office of Treasurer

Insurance Commissioner

STATE OF FLORIDA

TALLAHASSEE 32304

Case No. 76-Rate-06H



IN THE MATTER OF

Application for Approval  
of an Increase in Rates

For: Blue Cross - Group Payment - Type "P" )  
(Groups of 5-9 Persons) )  
Blue Cross - Group - Type "P" )  
(Groups of 10-24 Persons) )  
Blue Cross - Direct Payment - Type "J" )  
Blue Cross - Direct Payment - Type "F" )  
Blue Cross - Direct Payment - Type "H" )  
For: Blue Shield - Group Payment - Type "K" )  
(5-9 Contracts) )  
Blue Shield - Group Payment - Type "K" )  
(10-24 Contracts) )  
Blue Shield - Group Payment - Type "A" )  
(5-9 Contracts) )  
Blue Shield - Group Payment - Type "A" )  
(10-24 Contracts) )  
Blue Shield - Group Payment - Type "B" )  
(5-9 Contracts) )  
Blue Shield - Group Payment - Type "B" )  
(10-24 Contracts) )  
Blue Shield - Direct Payment - Type "K" )  
Blue Shield - Direct Payment - Type "V" )  
Blue Shield - Direct Payment - Type "F" )  
Blue Shield - Direct Payment - Type "H" )  
For: Blue Cross and Blue Shield - Group Payment - )  
Supplemental Accident (Groups of 5-24 Persons) )  
Blue Cross and Blue Shield - Group Payment - )  
Diagnostic X-Ray and Laboratory (Groups of 5-24 Persons) )  
Blue Cross and Blue Shield - Group Payment - )  
Major Medical Endorsement (Groups of 5-24 Persons) )  
Application for Approval of an )  
Increase in Deductible )  
For: Blue Cross and Blue Shield - Direct Payment )  
Major Medical Endorsements )

ORDER

To: BLUE CROSS OF FLORIDA, INC.  
BLUE SHIELD OF FLORIDA, INC.  
532 Riverside Avenue  
Post Office Box 1798  
Jacksonville, Florida 32203

The above entitled matter came on for consideration upon the application or request for approval of rate increases or increase in deductible for the above captioned contracts and riders by the proponents, BLUE CROSS OF FLORIDA, INC., and BLUE SHIELD OF FLORIDA, INC., in written requests dated July 26, 1976 and supportive data related thereto submitted to the Department of Insurance on August 18, 1976, and further supplemented at a public hearing held August 26, 1976, in Senate Room A, Senate Office Building, Tallahassee, Florida before the undersigned Insurance Commissioner of the State of Florida. Due and timely notice of said proceedings was given by publication in the Florida Administrative Weekly, Vol. 2, No. 31, issued July 30, 1976, by publication in several newspapers of general circulation in this State, and by mail to known interested persons and an agenda was made available in accordance with the rules of the Department of Insurance. Said application included request for rate increases on eighteen contracts and riders and an increase in deductible for the direct payment major medical endorsements.

The undersigned as Insurance Commissioner having considered the said requests and supportive data, and being otherwise fully advised in the premises finds:

1. That the Insurance Commissioner as head of the Department of Insurance has jurisdiction of the subject matter.
2. That the rates charged by BLUE CROSS OF FLORIDA, INC., and BLUE SHIELD OF FLORIDA, INC., to subscribers for medical, surgical and hospital care are at all times subject to the approval of the Department of Insurance.
3. That the present rates charged by BLUE CROSS OF FLORIDA, INC., and BLUE SHIELD OF FLORIDA, INC., for the contracts under consideration, are inadequate and fail to provide the necessary income needed to pay the losses and expenses

incurred in providing the coverage to subscribers.

4. That BLUE CROSS OF FLORIDA, INC., and BLUE SHIELD OF FLORIDA, INC., have experienced a combined loss of over four million dollars (\$4,000,000) with respect to said contracts for the first four months of 1976 with continuing losses projected in the amount of eighteen million dollars (\$18,000,000) for the fifteen month period from October 1, 1976 through December 31, 1977 if present rate levels are not adjusted.
5. That the continued operating losses of approximately one million dollars (\$1,000,000) per month will eliminate all surplus during the coming year and will result in the insolvency of both BLUE CROSS OF FLORIDA, INC., and BLUE SHIELD OF FLORIDA, INC., if rate levels are not adjusted. It is noted that BLUE SHIELD OF FLORIDA, INC. received a three million dollar (\$3,000,000) surplus loan contribution from BLUE CROSS OF FLORIDA, INC. in April, 1976, and were it not for such contribution, BLUE SHIELD OF FLORIDA, INC. would today be insolvent.
6. That the evidence and data presented in the filing shows that the losses on the contracts under consideration are due to a number of factors including increased hospital and physician charges, increased utilization of benefits by subscribers, increased incidence of test procedures ordered by physicians practicing defensive medicine, higher medical malpractice expense, and increased costs of services and supplies generally.
7. That hospital ancillary charges for laboratory services, drugs, dressings, X-Ray, oxygen and similar hospital services paid by BLUE CROSS OF FLORIDA, INC. have increased approximately 25% over 1975 during the first six months of

1976. The average cost per inpatient day for ancillary hospital charges paid by BLUE CROSS OF FLORIDA, INC., increased from \$73 in 1975 to \$92 during 1976.

8. That more BLUE SHIELD OF FLORIDA, INC. subscribers are going to their physicians with greater frequency and are obtaining more services upon confinement in hospitals. The number of claims per thousand contracts increased from 1441 in 1974 to 1588 during 1975, a 10.2% increase.
9. That the administrative costs of BLUE CROSS OF FLORIDA, INC. as a percentage of premium have been reduced and in compliance with the prior order of this Department, BLUE CROSS OF FLORIDA, INC. and BLUE SHIELD OF FLORIDA, INC., have provided periodic reports of their progress in the area of health care cost containment as to programs for "Area wide planning," "Prospective hospital payment," "Utilization review committees," "Outpatient hospital care," "Pre-admission testing" and other health care cost reduction programs.
10. That BLUE CROSS OF FLORIDA, INC. and BLUE SHIELD OF FLORIDA, INC. have failed to submit data justifying the requested increase of the \$100 calendar year deductible to a \$300 deductible with respect to direct payment major medical contract endorsements. Neither through statistical data or by other means have the Companies demonstrated the projected effect of the change in calendar year deductibles upon loss ratios or operating results.
11. That the proposed contract rates as developed in the data submitted are, with the exception noted in the foregoing paragraph, neither excessive nor inadequate and are necessary to both alleviate the surplus drain currently being experienced by BLUE CROSS OF FLORIDA, INC. and BLUE SHIELD OF FLORIDA, INC.,

and to continue their ability to meet their contractual obligations to subscribers.

12. That the proposed contract rates are competitive with the rates charged for comparable coverages provided by insurance carriers doing business in the state of Florida and subscribers of BLUE CROSS OF FLORIDA, INC. and BLUE SHIELD OF FLORIDA, INC., are at all times free to procure health care coverage from such competing insurers.

WHEREFORE it is ordered that:

1. The requests for rate level changes for the following contracts are conditionally approved subject to the requirement that BLUE CROSS OF FLORIDA, INC. and BLUE SHIELD OF FLORIDA, INC. shall submit continuing reports to the Department of Insurance fully justifying those projections made in the within filing and the rate levels hereby approved.

(a) Conditionally approved:

Blue Cross	-	Group Payment - Type "P"
		(Groups of 5 - 9 Persons)
Blue Cross	-	Group - Type "P"
		(Groups of 10-24 Persons)
Blue Cross	-	Direct Payment - Type "J"
Blue Cross	-	Direct Payment - Type "F"
Blue Cross	-	Direct Payment - Type "H"
Blue Shield	-	Group Payment - Type "K"
		(5-9 Contracts)
Blue Shield	-	Group Payment - Type "K"
		(10-24 Contracts)
Blue Shield	-	Group Payment - Type "A"
		(5-9 Contracts)
Blue Shield	-	Group Payment - Type "A"
		(10-24 Contracts)
Blue Shield	-	Group Payment - Type "B"
		(5-9 Contracts)
Blue Shield	-	Group Payment - Type "B"
		(10-24 Contracts)



Blue Shield - Direct Payment - Type "K"  
Blue Shield - Direct Payment - Type "V"  
Blue Shield - Direct Payment - Type "F"  
Blue Shield - Direct Payment - Type "H"

Blue Cross and Blue Shield - Group Payment -  
Supplemental Accident (Groups 5-24 Persons)

Blue Cross and Blue Shield - Group Payment -  
Diagnostic X-Ray and Laboratory (Groups 5-24 Persons)

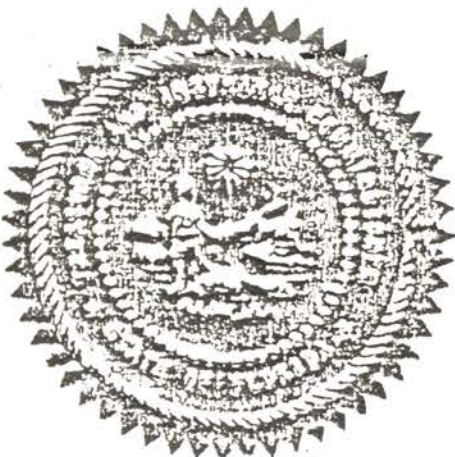
Blue Cross and Blue Shield - Group Payment -  
Major Medical Endorsement (Groups 5-24 Persons)

2. The required reports shall be initially filed on December 1, 1976 and shall be filed each 90 days or quarterly thereafter until further notice.
3. If the required statistical data, including but not limited to earned income, incurred losses and expense, demonstrates a rate charged for one or more contracts exceeding the projected rate necessary to support such contract, the Department shall withdraw the conditional approval herein granted and order an appropriate rate reduction.
4. The requests for an increase in the calendar year deductible from \$100 to \$300 for the following contracts are denied.

Blue Cross and Blue Shield - Direct Payment  
Major Medical Endorsements

5. BLUE CROSS OF FLORIDA, INC. and BLUE SHIELD OF FLORIDA, INC. shall continue to implement, support or explore innovative methods and practices in health care cost containment and continue to make progress reports to the Florida Department of Insurance at six-month intervals.

DONE and ORDERED this 7th day of September, 1976.



  
PHILIP F. ASHLER  
State Treasurer and  
Insurance Commissioner



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